



**Comptroller General
of the United States**

Washington, D.C. 20548

Decision

DOCUMENT FOR PUBLIC RELEASE

The decision issued on the date below was subject to a GAO Protective Order. This redacted version has been approved for public release.

Matter of: Coleman Research Corporation

File: B-278793

Date: March 16, 1998

James S. Roberts, Jr., Esq., Townes, Woods & Roberts, P.C., for the protester.
James J. McCullough, Esq., Joel R. Feidelman, Esq., and James S. Kennell, Esq.,
Fried, Frank, Harris, Shriver & Jacobson, an intervenor.
Craig E. Hodge, Esq., and Diane V. Beam, Esq., Department of the Army, for the
agency.
Paul E. Jordan, Esq., and Paul Lieberman, Esq., Office of the General Counsel, GAO,
participated in the preparation of the decision.

DIGEST

1. In conducting a cost realism analysis under a negotiated procurement for a follow-on cost reimbursement contract, procuring agency reasonably applied the protester's overhead rate from the predecessor contract, instead of the protester's significantly lower proposed rate, where protester's proposal failed to adequately support or justify the newly proposed rate.
2. Under solicitation which provided that cost was significantly less important than technical considerations, award to offeror with superior technical proposal and slightly higher most probable cost is unobjectionable where source selection authority reasonably determines that the lower cost associated with protester's proposal does not outweigh the technical superiority of awardee's proposal.

DECISION

Coleman Research Corporation protests the award of a contract to Science Applications International Corporation (SAIC) under request for proposals (RFP) No. DAAH01-97-R-0172, issued by the Department of the Army for support services concerning weapon systems effectiveness analysis. Coleman challenges the propriety of the agency's upward adjustment of Coleman's most probable cost and the soundness of the agency's cost/technical tradeoff.

We deny the protest.

The solicitation is for the acquisition of systems, cost, risk, and program evaluation support (SCRAPES) for the U.S. Army Aviation and Missile Command, Command Analysis Directorate. The successful contractor will provide cost analysis support services, program evaluation and analysis services, risk assessment and analysis services, program management support services, and system analysis and operations research support services. The effort is to be performed primarily at the contractor's facility, with some work to be performed at Redstone Arsenal, Alabama, as specified in individual technical direction orders. The RFP contemplated award of a cost-plus-fixed-fee contract for a base effort in the first year with options over an additional 4 years. Up to three awards could be made, one of which was to be under the Small Business Administration's 8(a) program.¹

Evaluation of proposals was based on three factors, in descending order of importance: requirements, past performance, and most probable cost (MPC). Under the evaluation scheme, the "requirements" factor was significantly more important than "past performance." "Cost" was considered equal to "past performance," and the sum of these two factors was less important than "requirements." Proposal risk was also considered integral to the "requirements" and "cost" evaluation areas. Before any proposal could be evaluated under these factors, the proposal had to pass a "go/no go" evaluation regarding whether the proposed personnel were able to meet minimum labor qualifications.

Section M of the RFP provided for an evaluation of MPC, defined as the government's estimate of the cost of completing the contract using the offeror's requirements approach, adjusted by any additional cost to the government. Section M also provided:

The Offeror's proposed rates, factors and expenses will be examined to substantiate utilization of consistent forward pricing procedures, i.e., negotiated forward pricing rates, if applicable, or rates and factors contractors ordinarily utiliz[e] in proposals if no negotiated forward pricing agreement exists. This includes indirect expense rates, projected rates and projected expense pools. The rates and factors proposed shall be applied to the mix of labor hours and skill mix, ODC's [other direct costs] and travel costs . . . for both the base contract and all options.

Section L, "Instructions, Conditions and Notices to Offerors," advised offerors that indirect expense rates "shall be supported by projected expense pools and cost recovery bases by contractor fiscal year." The instructions stated that there was no page limitation for the cost volume.

¹Coleman's protest does not concern the agency's 8(a) award decision.

Award was to be made to the offeror(s) whose proposal(s) represented the best overall value to the government. The RFP provided that the government intended to evaluate proposals and award a contract without discussions; therefore, offerors' initial proposals should contain their best terms from a cost and technical standpoint. Amendment No. 0004 of the RFP specifically reminded offerors of this, warning that they must ensure that their proposals were complete and accurate in all respects.

Five offerors, including Coleman (the incumbent) and SAIC, submitted proposals by the August 26, 1997, closing date. The evaluations on all factors for the protester's and the awardee's proposals were as follows:

Area/Element	SAIC	Coleman
Requirements	Outstanding	Very Good
-Program Risk	Outstanding	Very Good
-Cost Analysis	Outstanding	Outstanding
-System Analysis/ Operations Research	Outstanding	Outstanding
-Program Execution	Outstanding	Satisfactory
-Personnel Qualif/ Maintainability	Very Good	Very Good
-Subcontract Mgmt	Outstanding	Poor
-Subcontract Plan	Satisfactory	Satisfactory
Past Performance	Superior	Superior
Proposed Cost	\$37.4 Million	[deleted]
Most Probable Cost	\$37.5 Million	[deleted]

In conducting the MPC evaluation, the evaluators questioned Coleman's proposal of [deleted] overhead rate" of [deleted] percent. While Coleman's proposal stated that the rate was developed based on actual costs of the prior SCRAPES contract, in the evaluators' view, Coleman did not adequately support or justify the rate. After consultation with the Defense Contract Audit Agency (DCAA) and the administrative contracting officer on the predecessor SCRAPES contract, the evaluators determined to use Coleman's predecessor SCRAPES contract overhead rate of [deleted] percent, as reflected in Coleman's most recent forward pricing rate agreement. As a result, the MPC adjustment to Coleman's costs consisted of the addition of more than [deleted] to Coleman's proposal.

In making her award decision, the contracting officer, as source selection authority (SSA), considered SAIC's higher ratings in three of the seven elements under "requirements," the most important of the three evaluation factors. She found that SAIC's "demonstrated superiority in performing the effort," as well as its outstanding plans for program execution and subcontract management, were sufficiently significant to outweigh the MPC difference between its proposal and Coleman's, making SAIC's proposal best overall for the non-8(a) work. Source Selection Decision at 19. She awarded SAIC the contract on November 25. After receiving a debriefing, Coleman filed this protest with our Office.

Coleman first argues that the agency's MPC evaluation was flawed.² Specifically, Coleman objects to the agency's decision to upwardly adjust its costs by using a higher overhead rate than that proposed by Coleman. The agency maintains that since Coleman failed to adequately support its proposed rate, it reasonably relied on input from DCAA in applying the same overhead rate Coleman used on the predecessor contract.

When agencies evaluate proposals for the award of a cost reimbursement contract, an offeror's proposed estimated costs are not dispositive because, regardless of the costs proposed, the government is bound to pay the contractor its actual and allowable costs. Infotec Dev., Inc., B-258198 et al., Dec. 27, 1994, 95-1 CPD ¶ 52 at 6. Consequently, a cost realism analysis must be performed by the agency to determine the extent to which an offeror's proposed costs represent what the contract should cost, assuming reasonable economy and efficiency. CACI, Inc.--Fed., 64 Comp. Gen. 71, 75 (1984), 84-2 CPD ¶ 542 at 5. Because the contracting agency is in the best position to make this cost realism determination, our review of an agency's exercise of judgment in this area is limited to determining whether the agency's cost evaluation was reasonably based and not arbitrary. Infotec Dev., Inc., supra.

In our view, the agency's cost realism analysis and upward adjustment of Coleman's costs were reasonable. In determining to adjust Coleman's overhead rate, the agency reviewed Coleman's proposal, considered Coleman's overhead rate on the predecessor contract, and sought the input of DCAA. In this regard, Coleman's proposal provided a one-half page explanation of its rate, stating it had taken [deleted]. The proposal also stated that Coleman intended to [deleted]. While this explanation identified how the overhead rate was calculated, it provided no information in support of the rate's realism. Since the simple derivation of a rate does not necessarily reflect that rate's realism, and the agency is ultimately

²Coleman has raised various collateral matters in conjunction with its protest. We have reviewed them all and find that none has merit. This decision will address only the more significant matters raised.

responsible for paying the actual overhead rate, the agency's unwillingness to accept this overhead rate at face value is reasonable. See Infotec Dev., Inc., supra.³

Because the proposed rate represented a significant reduction to the [deleted] percent overhead rate in the predecessor contract, and Coleman's proposal provided little support, the agency also sought assistance from DCAA in the form of an audit for cost realism.⁴ DCAA reviewed Coleman's proposal, its prior forward pricing agreements, and additional information obtained from Coleman.⁵ The forward pricing agreement, submitted by Coleman and audited by DCAA less than 3 months prior to submission of Coleman's proposal, used [deleted] percent as the appropriate [deleted] overhead rate. The only additional information furnished by Coleman consisted of a single page which showed how Coleman calculated the [deleted] overhead on the basis of its [deleted]. In its review, DCAA found that Coleman's [deleted] overhead rate was based on [deleted] but noted that it

³While Coleman has posited that the agency somehow should have considered Coleman's proposed overhead rate as a ceiling, nothing in its proposal identifies the rate as a ceiling and Coleman did not complete clause H-12, "Indirect Cost Rate Ceiling," which called for an offeror to list those indirect cost ceilings by which it would be bound.

⁴Coleman argues that the agency erred in relying on DCAA's input because DCAA failed to perform a formal audit of its proposed overhead rate as requested by the agency. In Coleman's view, to be valid, an "audit" must be in accordance with generally accepted government auditing standards. However, the agency points out that section 2-001 of the DCAA Contract Audit Manual (July 1997) uses the term "audit" to refer to a variety of types of examinations and reviews by a person other than the preparer of the data and indicates that there is no commonly accepted definition of precisely what constitutes an audit that can be assumed to apply to all cases in which the term is used. The agency requested assistance from DCAA on the issue of cost realism, and it is plain from the record that DCAA understood that it was not required to perform a formal audit. Since the agency never intended DCAA to perform the type of audit envisioned by Coleman and such an "audit" was not required, Coleman's complaint provides no basis for objecting to the agency's reliance on DCAA's input.

⁵Coleman, as the incumbent contractor, was performing an effort similar to that of the follow-on contract. Approximately 2 months prior to submitting its proposal for the follow-on effort, Coleman submitted revised rates to DCAA in a forward pricing agreement covering the [deleted], which included [deleted] overhead rate of [deleted] percent. This rate was audited by DCAA and approved by the administrative contracting officer. One week before submitting its proposal for the follow-on effort, Coleman submitted a proposal for add-on work for the predecessor contract which also quoted the [deleted] percent overhead rate.

represented a new rate not disclosed in Coleman's earlier disclosure statement. Accordingly, DCAA applied the [deleted] percent rate as recommended by the administrative contracting officer. Based on its review, DCAA concluded that use of Coleman's proposed [deleted] rate could result in an understatement of approximately [deleted] in proposed costs. DCAA also opined that Coleman's estimating system was inadequate. DCAA concluded that the [deleted] percent rate associated with the [deleted] pool was the appropriate pool for SCRAPES work. This conclusion was based on Coleman's earlier organizational changes reflected in a revised disclosure statement which was based on the prior year's costing data, did not change the [deleted] percent rate, and showed a straight line forward pricing rate for future years.

In addition to DCAA's input, the agency evaluators also took cognizance of the fact that in preparing the forward pricing rate projections shortly before submitting the follow-on proposal, Coleman included some \$[deleted] of SCRAPES effort in the base and expenses of [deleted], which indicated that the effort was to be performed in that pool. The evaluators also considered that to establish a new rate, Coleman ordinarily would have to request it 60 days in advance, prepare an adverse impact statement regarding existing contracts, revise forward pricing rates for the [deleted] pool, and furnish these to the administrative contracting officer, none of which Coleman had done. DCAA's and the agency's conclusions were based on Coleman's historical overhead rates on the similar predecessor contract, which rates were audited shortly before submission of Coleman's proposal, and we see nothing objectionable in the agency's reliance on DCAA in adjusting Coleman's costs.

Coleman argues that rejection of its [deleted] overhead rate on the basis of its existing contract is improper. In Coleman's view, since this is a new contract effort, its proposal should be judged on its own merits without reference to the predecessor contract. We disagree. The follow-on contract effort appears very similar to that performed by Coleman under the predecessor contract and Coleman has provided no evidence that the follow-on contract is significantly different. Further, less than 3 months prior to submitting its proposal under this RFP, Coleman twice proposed use of a [deleted] percent overhead rate for this similar effort. As such, even though the solicited effort is "new," Coleman's cost history on the predecessor contract is relevant and, in the absence of adequate support or justification from Coleman in its proposal, the agency and DCAA reasonably relied on historical information to determine the overhead cost rate that the agency could reasonably expect to pay under the contract. Purvis Sys. Inc., 71 Comp. Gen. 203, 211-12 (1992), 92-1 CPD ¶ 132 at 10; Marine Design Techs., Inc., B-221897, May 29, 1986, 86-1 CPD ¶ 502 at 7.

While Coleman argues that it could have easily resolved the matter in discussions, this does not excuse Coleman's failure to provide the requisite support and justification for its proposed overhead rate in its initial proposal. Simply put, an offeror has the burden to submit a proposal adequate for evaluation, especially,

where, as here, the offeror is on notice that the agency intends to make award based on initial proposals without discussions. Titan Corp., B-260557.2, July 18, 1995, 95-2 CPD ¶ 89 at 9.⁶ Given that the proposal failed to include the information needed and that the agency did not--and was not required to--hold discussions, we conclude that the agency reasonably rejected the proposed overhead rate and upwardly adjusted Coleman's cost's using its predecessor contract overhead rate. Booz-Allen & Hamilton, Inc., B-275934.2, May 29, 1997, 97-1 CPD ¶ 222 at 8; Crimson Enters., Inc., B-243193.4, June 12, 1992, 92-1 CPD ¶ 512 at 10-11.

Coleman also contends that even if the agency's upward adjustment in the MPC was reasonable, the SSA's cost/technical tradeoff decision is suspect since the proposals were closely ranked and the cost difference is small. In a negotiated procurement, the government is not required to select the lowest-cost, technically acceptable proposal unless the solicitation specifies that cost or price will be the determinative award factor. General Servs. Eng'g. Inc., B-245458, Jan. 9, 1992, 92-1 CPD ¶ 44 at 9. Here, the RFP provided that cost was less important than technical considerations and advised the contractors that award would not necessarily be made to the offeror proposing the lowest cost. Agency officials have broad discretion in determining the manner and extent to which they will make use of technical and cost evaluation results. Cost/technical tradeoffs may be made; the extent to which one may be sacrificed for the other is governed by the test of rationality and consistency with the established evaluation factors. Id.

In support of its position that there was little difference between its proposal and SAIC's, Coleman notes that while SAIC's was rated "outstanding" under the requirements factor, Coleman's proposal was rated "very good." In our view, this does not evidence that there was an inconsequential difference between the proposals and, indeed, there were significant differences between the proposals at the elemental level. "Requirements" was the most important factor; under that factor's "program risk evaluation and analysis" element, Coleman's proposal was rated "very good"; under its "program execution" element, the proposal was rated "satisfactory"; and under its "subcontract management" element, the proposal was

⁶In support of its argument, Coleman submitted an affidavit from its assistant controller who spoke with a DCAA representative. In her affidavit, the controller averred that she sent certain supporting information to DCAA and offered to submit more backup if DCAA "had any questions." Since DCAA never requested additional information, Coleman argues that the agency should not penalize it for failing to provide adequate support. However, a "record of discussion" between the assistant controller and DCAA indicates that the promised "backup" information concerned an overtime matter questioned by DCAA and was not sent because the cognizant Coleman office could not provide the backup. The record of discussion also notes that when the assistant controller left the DCAA representative a voice mail message regarding the overtime matter, she did not mention the overhead rate.

rated "poor." SAIC's proposal was rated "outstanding" for all three of these elements. Coleman's lower proposal ratings were based in part on Coleman's lack of detail and information regarding cost performance analysis, the performance analyzer model, its accounting system, and its internal channels of communication. Of more importance to the SSA were Coleman's failure to demonstrate how it would ensure effective coordination of the effort, as well as subcontract management; failure to provide a plan to allocate effort and control costs with its proposed subcontractor arrangements; and failure to describe the purchasing system or procedures as they relate to the acquisition of subcontract labor, travel, and other direct cost. Since Coleman proposed [deleted] subcontractors, the SSA noted that it was imperative that Coleman have a good subcontract management plan and be able to control its subcontractors. An inability to perform in this area could result in poor quality, ineffective and inefficient performance, and increased cost to the government. Nothing in the record casts any doubt on the reasonableness of these ratings or concerns.⁷

In making her award determination, the SSA specifically noted SAIC's superior proposal ratings over Coleman's proposal in these areas. She weighed the relative importance of the different ratings and concluded that:

in consideration of [Coleman's] disadvantages and the magnitude of SAIC's advantages in the requirements area (which is significantly more important than either cost or past performance and more important than the sum of the cost and past performance areas), the price premium is considered of little significance in light of the significant differences in the proposed requirements approaches.

In this regard, she noted SAIC's "demonstrated superiority in performing the effort required by the [statement of work] as well as [its] outstanding plans for program execution and subcontract management." In her view, SAIC's "requirements" superiority was sufficiently significant to outweigh the cost difference between Coleman's and SAIC's proposals. Accordingly, she determined that SAIC's proposal represented the best value to the government. Given the established technical

⁷Coleman's argument that these ratings are invalid because they were not used to upwardly adjust its costs is without merit. Nothing in the evaluation scheme provided for an adjustment to costs based solely on low ratings under the "requirements" factor. In any event, if such adjustments had been made, Coleman's MPC would have been further increased, to Coleman's detriment.

superiority of SAIC's proposal and the minimal cost difference (approximately [deleted]) there is no basis to question the reasonableness of the SSA's cost/technical tradeoff. General Servs. Eng'g. Inc., supra.

The protest is denied.

Comptroller General
of the United States